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IMPROVING THE FINANCIAL SITUATION OF THE UNITED NATIONS

Report of the Secretary-General

Addendum

I. INTRODUCTION

1. The present report updates information on the financial situation of the United Nations provided in the report of the Secretary-General of 11 March 1997 on the subject (A/51/515/Add.2). It provides information on the financial situation of the Organization as at 30 April 1997 and cash flow projections for 1997.

II. OVERVIEW

2. Cash balances continue to be erratic. The timing and amount of inflows continue to be unpredictable, and uncollected assessments continue at precarious levels. The Organization continues to be unable to pay its bills on a timely basis and thus continues to be on the edge financially, as it has been for the last two years.

3. During the past two years, approximately one year's assessment has remained uncollected, and debts payable to Member States have remained at around $900 million. Until uncollected assessments are received, it will not be possible to see any significant change in the amounts owed to Member States. One group of Member States may thus be at the point of persistently, and perhaps permanently, financing the assessments owed by a second group of Member States.

III. REGULAR BUDGET CASH SITUATION

4. As at 30 April, a total of $637 million had been collected for the regular budget, a little over half of the 1997 assessment bill, compared to $595 million in April 1996 and $584 million in April 1995. There was actually a decrease in the number of Member States paying current year assessments in full. Only 54 Member States had paid in full by 30 April 1997, compared to 56 in 1996 and 39 in 1995. The increased amount collected in 1997 was largely the result of arrearage and partial payments.

5. The largest regular budget contributions received by 30 April 1997 ranged from a contribution of $100 million from the United States of America to $7.7 million from Denmark.

6. There were also a number of sizeable payments after 30 April. Japan paid the balance of its 1997 contribution on 7 May. If the payment had been received a week earlier, Japan would have been at the top of the list with $167 million. Full payment of $45.5 million was also received in May from the Russian Federation.

7. On a month-by-month basis, collections already made in 1997 have outpaced collections made during the comparable periods in 1995 and 1996. It is expected that 1997 collections will lose most of that accelerated pace during the third and fourth quarters. For the full year, regular budget cash collections of $1.2 billion in 1997 are estimated, compared to $1.2 billion in 1996 and $1.1 billion in 1995.

8. At the end of April, the usable cash balance of the General Fund (the regular budget and related reserve funds) totalled $92 million, less than the amount needed for one month of regular budget expenditures, but better than at the end April 1996, when cash balances were only just over $7 million.

IV. REGULAR BUDGET CASH PROJECTIONS

9. In the report of the Secretary-General of 11 March 1997 (A/51/515/Add.2), it was indicated that preliminary regular budget projections for 1997 forecast a return to deep negative cash amounts later in the year and that the pattern for 1997 would be similar to that of 1996.

10. Current projections are similar, but slightly more encouraging. In the March forecast, it had been anticipated that there would be a need for five months of borrowing from peacekeeping accounts during 1997, with a negative cash amount at the end of 1997 of some $225 million. Having reviewed earlier projections for income and expenditures, it is now envisaged that the Organization will be in a negative position for four months, with a maximum level of borrowing of $275 million at the end of November and an end-of-year negative balance of $201 million.

11. The cash balance projection month by month in 1997 shows a rapid fall-off into a negative cash position at year end, in line with all recent forecasts. The current forecast reflects experience during the first four months of the

year and is based on some adjustment of both income and expenditure assumptions for the balance of 1997.

12. These latest projections are based on informal contacts and past payment patterns and depend crucially on the receipt of contributions from a number of Member States.

V. PEACEKEEPING CASH SITUATION

13. Usable peacekeeping cash at the end of April amounted to $989 million, an amount higher than the $874 million on hand at the beginning of the year. This is due for the most part to early and large inflows of assessed contributions, including $197 million in April. Thus far in 1997 no significant payments have been made to troop and equipment contributors. When such payments begin, the cash position of the Organization during the balance of 1997 is likely to be much less favourable.

14. For the whole year, it is projected that there will be a run-up in cash balances early in the year, as new assessments are collected, and a rundown later in the year, as disbursements outpace collections.

15. As for receipts and disbursements, it should be noted once again, that cash flow forecasts for peacekeeping operations are much more difficult to make than those for the regular budget. The timing and amount of peacekeeping assessments and the resultant effect on the predictability of receipts are much more volatile than is the case with the regular budget. In particular, payment projections for the major contributors this year were based on last year's pattern, and there is no firm indication of what payments may be expected from major contributors.

16. In addition, the level of assessments is based on the budget estimates of peacekeeping operations or the known recommendations of the Advisory Committee on Administrative and Budgetary Questions. As regards the timing of assessments, it is assumed that there will be only one assessment for each mission through the end of the year. Should there, instead, be several assessments approved for shorter periods, the normal lags experienced in payments would likely cause lower receipts in 1997 than currently projected.

VI. PEACEKEEPING CASH PROJECTIONS

17. It is expected that peacekeeping disbursements will exceed receipts in six of the coming eight months of 1997. For the whole year, it is projected that total disbursements will exceed receipts by $240 million. This projection reflects expenditures under the liquidation phase of several peacekeeping missions, including the United Nations Protection Force, the United Nations Assistance Mission in Rwanda and the United Nations Operation in Mozambique, which are not balanced by corresponding assessments. It also reflects the application of some of the accumulated credits in respect of the unencumbered balances of peacekeeping missions, the application of which the General Assembly had earlier delayed.

18. As regards payments to troop and equipment providers, the peacekeeping projections reflect the currently estimated total disbursements of $266 million for 1997 for troop reimbursements. These payments will be made in instalments on a periodic basis.

19. The payments to be made for 1997 compare unfavourably with payments of $550 million in 1996, when a substantial arrearage payment of $200 million from the Russian Federation made possible a significant pay down of debt to troop and equipment providers.

20. On this basis, the projected level of unpaid reimbursements to Member States at the end of 1997 is estimated at $829 million. This will be only marginally lower than the current amount at the end of 1996 - $845 million.

21. Estimates of the level and frequency of assessments, the application of credits and the amount of troop and equipment payments are based on the most realistic assumptions and judgements that can be made at this point. On this basis, it is now projected that peacekeeping cash will fall to $634 million at the end of 1997. This compares to the estimated $829 million owed to Member States, a gap of almost $200 million. This gap closed in 1996 when the Russian Federation paid down $200 million in arrearage. It has widened again in 1997. This is a serious danger sign, since peacekeeping cash on hand is much lower in 1997 than in prior years.

VII. COMBINED CASH POSITION

22. The practice of keeping afloat by delaying payments to troop and equipment providers is not only an inherently unsound financial practice, but is also unsustainable as the level of peacekeeping assessments declines. Current projections are beginning to demonstrate this. Based on the assumptions outlined above, it is now forecast that the combined cash position of the Organization will be $433 million, with a regular budget cash deficit of $201 million and a peacekeeping positive balance of $634 million. This would cover barely two months of expenditures at average monthly rates now projected for 1997.

23. With no reserves and no capital to shore up the Organization, an already precarious situation becomes even more unstable. While the December figure is bad, the November projection of combined usable cash leaves the United Nations with only just over $300 million, or roughly six weeks' requirements at average 1997 expenditure rates.

VIII. ARREARS

24. The precarious financial situation of the United Nations is basically due to the question of arrears. The Organization is totally dependent on the prompt payment of assessments for its financial health.

25. For example, peacekeeping assessments so far in 1997 totalled $488 million at 30 April. As of that same date, payments and credits applied in 1997

amounted to $477 million. Thus, the problem is not current payments but Member States' arrears.

26. At the end of April, prior years' outstanding contributions for peacekeeping totalled $1.4 billion. Of this amount, major contributors owed $1,261 million, or 88 per cent, with the largest contributor owing the largest amount at $839 million. All other Member States owed $168 million, or just 12 per cent.

27. Regular budget arrears followed the same pattern. Of the 15 major contributors only 3 had prior years outstanding contributions as at 30 April 1997. The combined amount for the other 170 Member States totalled $68 million or just 19 per cent of the total.

28. The non-payment of these outstanding contributions is jeopardizing the financial health of this Organization, especially as receipts for peacekeeping accounts decline. The financial health of the Organization thus continues to deteriorate.